

ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1937, ENDED JANUARY 1, 1938

February 11, 1938.

TO THE SHAREHOLDERS:

This report is for Kroger's fiscal year beginning January 3, 1937, and ended January 1, 1938 (52 weeks). Comparative financial and operating statistics, which in former reports are mentioned in the text, will be found, for your convenience, in condensed form on a separate page of this report.

Sales for the fiscal year 1937 (52 weeks) were \$248,444,230 as compared to sales for 1936 (53 weeks) of \$242,273,498, an increase of 3%.

Earnings (after Federal Income Tax) for the fiscal year 1937 were \$2,950,339.96, or \$1.62 per share, after Preferred Dividends, as compared to earnings for the fiscal year 1936 of \$3,487,831.71, or \$1.91 per share.

During the fiscal year 1937 there were imposed upon your company certain increased expense burdens as compared to 1936, over which it had little or no control, such as Social Security Taxes and increased wages, which amount, in the aggregate, to approximately \$1.12 per share.

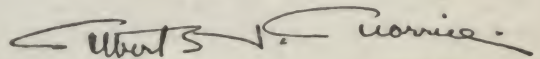
We are not disposed to be discouraged as to the outlook for the year 1938. The Kroger organization in our opinion has the ability to gradually overcome these imposed burdens. During 1937 these increases came so fast and in such large amounts that it was impossible to cover them within the year.

On January 1, 1938, this Corporation had no future commitments for the purchase and sale of commodities which would materially affect your Company's financial position or earnings. Our rapid inventory turnover minimizes any probability of inventory loss.

With deep regret we report the death of Mr. J. O. McKinsey, a member of your Board of Directors, a trusted and valued adviser of many years standing.

To our personnel throughout the entire company we extend our sincere thanks for their loyal, capable and continued efforts and cooperation.

Respectfully submitted,



President.

CONSOLIDATED BALANCE

ASSETS

Cash in banks and on hand.....		\$12,123,820.01
Notes and accounts receivable, net of allowance for those doubtful of collection:		
Customers, including welfare associations and relief agencies.....	\$ 776,259.91	
Employees.....	13,202.32	
Claims, advances, etc.....	<u>301,706.10</u>	1,091,168.33
Inventories of merchandise, at lower of cost or market.....		19,985,345.08
Prepaid insurance, rent, taxes, etc.....		958,725.08
Accrued accounts receivable, not due.....		<u>125,041.68</u>
TOTAL CURRENT ASSETS		34,284,100.18
Deferred claims receivable, net of provision for possible losses.....		263,230.42
Investments, at ledger values:		
Stock of subsidiary company, not included in consolidation, at cost.....	6,067,612.49	
Other stocks, bonds, and mortgage notes, etc.....	<u>216,275.95</u>	6,283,888.44
Common stock of company held for sale to employees (8896 shares).....		97,157.05
Cash, bonds and certificates of deposit and dividend accumulation held for use and benefit of employees under group insurance plan (Contra).....		<u>192,336.21</u>
FIXED ASSETS:		
Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates, C. G. Richardson, C. E., and the real estate department of the company, as at January 1, 1933, with subsequent additions, at cost:		
Land.....	<u>1,341,662.14</u>	
Buildings.....	8,671,995.24	
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions, at cost.....	17,839,416.23	
Automotive equipment, etc., at cost.....	<u>3,412,047.04</u>	
	29,923,458.51	
Less, allowance for depreciation and obsolescence.....	<u>15,922,634.66</u>	
	<u>14,000,823.85</u>	15,342,485.99
Store and general supplies and deferred charges to future operations.....		<u>648,942.41</u>
		<u><u>\$57,112,140.70</u></u>

The balance sheet and income and surplus account summarize the accounts of The Kroger Grocery & Baking Company, after consolidating therein the assets and liabilities of the Wesco Foods Company and the Colter Company. In accordance with consistent practice the assets and liabilities of the Piggly Wiggly Corporation are not consolidated therein. The dividends received on the capital stock owned of the Piggly Wiggly Corporation are included in the income account.

The proportion of the undistributed profits accrued on the capital stock owned of the Piggly Wiggly Corporation, a subsidiary not included in the consolidated financial state-

ments, aggregates \$56,167.32 since the date of acquisition of the stock in 1928.

It has been the consistent practice of the Companies for years to absorb in their annual income account all extraordinary costs and adjustments of provisions made from income of prior years whether increases or decreases and refunds of taxes, etc., of prior years. Following this practice there has been included in the income account for 1937 as deductions, extraordinary costs aggregating \$456,620.56 and as additions, adjustments as described above aggregating \$597,244.60, net of estimated taxes payable thereon.

No provision has been made, or is believed to be required, for Federal surtax on undistributed profits.

LIABILITIES

Accounts payable, vendors, etc.		\$ 4,710,923.26
Accrued expenses, taxes, etc.		1,771,288.85
Provision for federal taxes, current and prior years.		921,351.06
Dividends payable.		<u>1,645.50</u>
TOTAL CURRENT LIABILITIES		7,405,208.67

Provision for self insurance and other uninsured risks.	\$ 360,736.71	
Provision for rentals of closed stores, not yet due.	<u>147,510.70</u>	508,247.41
Amounts due employees representing dividends and premium refunds on group insurance held by company for the use and benefit of employees (Contra).		192,336.21

CAPITAL AND SURPLUS

Preferred capital stock outstanding:		
First preferred, 6 pct. par \$100.	\$ 53,700.00	
Second preferred, 7 pct. par \$100.	<u>48,000.00</u>	101,700.00
Common capital stock without par value:		
(Authorized 3,000,000 shares)	Shares	
Issued.	1,848,278	
Less, in treasury.	<u>17,393</u>	
Outstanding.	1,830,885	33,398,249.80
Capital surplus.		1,047,760.62
Earned surplus, as annexed.	<u>14,458,637.99</u>	49,006,348.41
		<u>\$57,112,140.70</u>

THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have made an examination of the consolidated balance sheet as at January 1, 1938, and of the consolidated statement of income and surplus for the year 1937 of The Kroger Grocery & Baking Company and subsidiaries. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the consolidated balance sheet and the related consolidated statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their position at January 1, 1938 and the results of their operations for the year then ended.

Cincinnati, Ohio.
February 8, 1938.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

THE KROGER GROCERY & BAKING COMPANY

Executive Offices: 35 East 7th St., Cincinnati, Ohio

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

F. M. GRIEME, *Assistant Treasurer*

L. J. HUERKAMP, *Secretary*

T. S. BURNS, *Assistant Secretary*

J. H. SADLER, *Ass't. Sec'y. and Ass't. Treas.*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati
President, The Mabley and Carew Co.

L. J. HUERKAMP, Cincinnati
Secretary, The Kroger Grocery & Baking Company

WALTER A. DRAPER, Cincinnati
President, The Cincinnati Street Railway Company

CHESTER F. KROGER, Cincinnati
Capitalist

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

ALBERT H. MORRILL, Cincinnati
President, The Kroger Grocery & Baking Company; Piggly Wiggly Corporation

HARRY J. GILLIGAN, Cincinnati
John J. Gilligan & Son

CHARLES M. ROBERTSON, Cincinnati
Vice-President and Treasurer, The Kroger Grocery & Baking Company

G. A. GINTER, Cincinnati
Member Firm, Nichols, Morrill, Wood, Marx & Ginter

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

JOHN R. RONEY, Chicago
Capitalist

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York

CONSOLIDATED INCOME AND EARNED SURPLUS ACCOUNT

for the period from January 3, 1937, to January 1, 1938

Net sales.....		\$248,444,230.08
Cost of sales, including warehousing and transportation expenses.....		<u>198,926,897.10</u>
		49,517,332.98
Operating expenses, excluding depreciation.....	\$ 42,489,959.08	
Administrative expenses.....	<u>1,990,761.25</u>	<u>44,480,720.33</u>
Profit from operations before allowance for depreciation.....		5,036,612.65
Allowance for depreciation.....		<u>2,391,400.73</u>
		2,645,211.92
Interest earned, net of interest paid.....		<u>9,497.95</u>
Profit from operations and other income, excluding income from subsidiary and affiliated sources, extraordinary costs, adjustments of income of prior years and federal income taxes.....		2,654,709.87
Net earnings of subsidiary and affiliated companies for fiscal year (includes dividends of \$237,493.90 received from a subsidiary not included in consolidated statements. The proportion of earnings of the subsidiary company accrued on capital stock owned exceeded the dividends received by \$419.61).....		<u>482,406.05</u>
Profit before extraordinary costs, adjustments of income of prior years and federal income taxes.....		3,137,115.92
Adjustments of income of prior years, net of extraordinary costs.....		<u>140,624.04</u>
		3,277,739.96
Federal income taxes, estimated.....		<u>327,400.00</u>
Net income.....		2,950,339.96
Surplus, January 3, 1937.....		<u>14,430,173.43</u>
		17,380,513.39
Deduct:		
Cash dividends paid in the fiscal period ended January 1, 1938:		
First Preferred \$6.00 per share.....	3,312.00	
Second Preferred 7.00 per share.....	3,381.00	
Common 1.60 per share.....	<u>2,915,182.40</u>	<u>2,921,875.40</u>
Surplus, January 1, 1938.....		<u><u>\$ 14,458,637.99</u></u>

FINANCIAL AND OPERATING STATISTICS for the fiscal years 1930 to 1937, inclusive

	1930	1931	1932	1933	1934	1935	1936	1937
PROFIT AND DIVIDENDS								
Final Net Profit—Dollars Per Sh. —Total Dollars...	1.14 2,168,247	1.46 2,731,128	1.47 2,740,867	2.51 4,546,203	2.31 4,198,241	2.25 4,110,926	1.91 3,487,832	1.62 2,950,340
Cash Dividends Paid Per Common Share	1.00	1.00	1.00	1.00	1.80	1.60	1.90	1.60
STOCK								
Number Shares Common Stock out- standing with Public—End of Year	1,813,486 ⁸ / ₁₀₀ 16,945	1,813,486 ⁸ / ₁₀₀ 18,856	1,811,091 ⁸ / ₁₀₀ 20,680	1,792,366 ⁸ / ₁₀₀ 19,605	1,810,293 ⁸ / ₁₀₀ 20,633	1,821,989 22,537	1,821,989 24,535	1,821,989 26,226
Number Shareholders—End of Year								
SALES								
Total Sales—Dollars	267,094,345	244,371,147	213,159,743	205,691,715	221,175,330	229,907,884	242,273,498	248,444,230
Average Retail Sales— Dollars Per Store Per Week	954	941	848	861	968	1,018	1,060	1,122
Index Numbers—Base, 1930=100:								
Total Sales—Dollars	100	91	80	77	83	86	91	93
Retail Sales Per Store Per Week	100	99	89	90	101	107	111	118
Retail Food Prices								
Bureau of Labor Statistics ... (U. S. Dept. of Labor)	100	82	69	67	74	81	82	85
Tonnage Sales—Total	100	111	116	116	111	107	110	109
—Per Store Per Week	100	120	130	135	136	132	135	138
STORES								
In Operation at End of Year:								
Grocery	5,165	4,884	4,737	4,400	4,352	4,250	4,212	4,108
Meat	2,990	2,869	2,845	2,767	2,748	2,653	2,626	2,482
Average Number Operated During Year:								
Grocery	5,302	4,980	4,816	4,573	4,356	4,286	4,239	4,169
Meat	3,033	2,889	2,877	2,815	2,745	2,694	2,655	2,547
Licensed Piggly Wiggly Stores At End of Year	2,767	2,558	2,143	1,979	1,836	1,544	1,398	1,230
EMPLOYEES								
Number Full-Time Employees At End of Year	20,072	18,906	18,367	20,872	22,023	21,611	21,429	21,515
BALANCE SHEET STATISTICS								
Current Ratio	3.13	4.27	4.81	4.60	4.35	4.85	4.22	4.63
Cash, U. S. Government and Municipal Securities:								
Dollars	6,587,755	7,884,339	12,035,381	9,890,785	9,091,800	10,837,664	9,943,788	12,123,820
Ratio to Current Liabilities72	1.27	2.00	1.48	1.21	1.57	1.20	1.64
Inventories—Dollars	19,937,671	16,443,597	14,589,421	18,627,029	20,916,910	20,129,097	22,692,864	19,985,345
Fixed Assets in Percent of Total Assets	38	39	32	29	28	28	27	27
Net Working Capital	19,583,517	20,278,307	22,920,966	24,138,697	25,202,194	26,550,609	26,734,286	26,878,892